



JOHN ENGLER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

DOUGLAS B. ROBERTS
STATE TREASURER

July 24, 2002

**Special Notice to Michigan Tobacco Tax Wholesalers and Out-of-State
Unclassified Acquirers concerning an Inventory Tax and Compensation Increase**

On August 1, 2002, the tax rate on cigarettes will increase from 37.5 to 62.5 mills per cigarette or from \$.75 cents to \$1.25 per pack of 20 cigarettes. The tax rate on other tobacco products (OTP) will also increase from 16% to 20% of the wholesale price of the OTP.

The compensation rate for cigarettes will also be increased on August 1, 2002 from 1.25% to 1.50%. There is no change in the 1% compensation rate for OTP.

Beginning August 1, 2002, any tobacco product that is imported, transferred, sold, or purchased within the state of Michigan must be taxed at the new rates. Consequently, anyone who has **tax-paid** tobacco products on hand for sale at the close of business on July 31, 2002 upon which tax was paid at the rate in effect prior to August 1, 2002

MUST DO both of the following:

- **Take a physical inventory of all cigarettes and OTP on hand as of the close of business July 31, 2002. The amount of OTP a licensee or other person “has on hand for sale” on August 1, 2002, is the actual physical inventory of OTP. Actual physical inventory includes shipments of OTP that licensees or other persons physically possess on or before July 31, 2002.**
- **File a tobacco products floor tax return postmarked by September 3, 2002, and pay the additional tax of 50 cents per pack of 20 cigarettes and the additional tax of 4% of the wholesale price of OTP for all physical inventory on hand as of the close of business on July 31, 2002. The physical inventory includes cigarettes or OTP offered for sale, kept on site, and kept or stored at other locations in Michigan. Note that you are responsible for reporting and collecting the tax at the rate in effect on August 1, 2002 on any cigarettes or OTP that you shipped before August 1, 2002 and were received by the purchaser on or after August 1, 2002.**

NOTE that this inventory tax does not apply to wholesalers and out-of-state unclassified acquirers unless they are in possession of tax-paid tobacco products where the tax was paid prior to the rate increase on August 1, 2002. If you have product for return to manufacturers and do not include them in your July 31, 2002 inventory as reported on Schedule E, you must file and pay the floor tax on this product.

We would like your assistance in notifying your Michigan tobacco customers of this inventory tax. For your convenience we have included copies of the notices sent to retailers, secondary wholesalers and unclassified acquirers and form #2374, the Michigan Cigarette Inventory Tax Return. You may make copies of the letter and form to distribute to your customers.

Please do not hesitate to contact the Tobacco Tax Unit at 517-241-8180 if we can be of assistance.